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 Date: _____ By: _____

TO : Management Officer

FROM : Chief, Services Division

SUBJECT: Budget Procedures

1. In accordance with your memorandum of 29 December 1949, I am forwarding herewith my recommendations in connection with budget procedures and techniques in CIA.

2. First, I would like to state that the comments herein contained are not intended as criticism to any individual or activity, but rather, it is hoped that they may be of some benefit in improving the budgetary and fiscal procedures within CIA, at least from a Services point of view. Second, I am not aware of all of the policies of the Executive or the Director with respect to the budget, and, therefore, my comments to that extent are made with reservations. Third, over the period of the past several months, as a result of a number of discussions with [REDACTED] and, undoubtedly, as a result of many other discussions in which I have not been involved, there has been considerable improvement in budget and fiscal procedures.

3. My recommendations and the reasons therefor are as follows:

A. RECOMMENDATION: That the Budget Staff, in their call for estimates, issue special instructions to each operating office, indicating which activity will budget for the numerous and varied special requirements of such offices. That copies of such instructions be forwarded to Services in order that Services activities are aware of the instructions and are guided accordingly.

REASON: There are many small items not generally considered in budgetary instructions, of which neither the operating activity nor the Services activity is certain where the budgeting responsibility lies. In the past this has been handled through Budget Analysts, but it would be more satisfactorily accomplished by written instructions.

B. RECOMMENDATION: That a unit copy of the final agency approved budget for a CIA Office or activity be furnished to the subject Office or activity.

REASONS: (1) By direction of the Director or the Executive, certain items are removed from the budget; and, in the case of Services, we have not been advised of the specific changes which have been made.

(2) The Budget Staff does remove items from budgets of operating activities and place them in the budget of the Services activities. Unless this information is passed on to Services when the fiscal year arrives, charges for such items may be made against the operating activity allotment account.

Always discussed with Services before action is taken

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- (3) Budgeting activities would then be more familiar with the form and method of presentation by the Budget Staff, and the budgets submitted by these activities would require less adjusting and re-writing by the Budget Staff.
- (4) It does not appear that there would be any loss of security in connection with the budget, since the activity concerned is generally aware of the information contained in its own budget.

C. RECOMMENDATION: That each CIA activity be advised at the beginning of each fiscal year, and upon the passage of the CIA appropriation by Congress, of the total sum to be allotted to it for the fiscal year period. That, following the receipt of this advice, the activity concerned furnish to the Budget Staff an indication of the financial requirements by quarters for the preparation of Advices of Allotment.

The activity concerned should review its requirements at this time in coordination with Budget Analyst and arrive at a new total of requirements.

allotments are made on a yearly basis.

REASONS: (1) Few, if any, of the activities of CIA are ever aware of the total sum allowed under the budget for its fiscal year operation, thereby precluding combined financial, administrative, and operational planning.

The allotments were consumed in by services before release.

(2) Previously, allotments made have been small and inadequate, thereby requiring frequent replenishment of funds in allotment accounts, resulting in delays in processing of obligation documents issued by Services and greatly increasing work to be done in the Accounting Branch of the Fiscal Division. This situation has in recent months been corrected with respect to allotments made to Services, but I understand that this has not been done for other activities.

(3) Such a procedure will tend to make CIA administrative personnel more dollar conscious than at the present time.

If the budgetary allotment is not to be exceeded, Form 32-7 is not required and never has been.

(4) This procedure would practically eliminate the necessity for the use of Form 32-7, "Request for Change in Allotment", unless and until it appeared necessary to obtain an allotment in excess of that which was given at the beginning of the fiscal year. Under such circumstances, I agree that justification for requesting an increase in allotment is necessary, but this should not be necessary as long as the budgetary allotment is not exceeded, although such justification has been required in the past.

D. RECOMMENDATION: That a more comprehensive system of allotment accounts and instructions for various charges be prepared by the Budget Staff to be issued to administrative and other personnel charged with budgetary and other administrative functions.

- REASONS: (1) The present system of allotment accounting does not permit day to day analysis of cost of operating particular activities or other special requirements.
- (2) The present system requires the detailed analysis by Budget Analysts of charges to meet requirements of both operating activities, the Bureau of the Budget, and, I assume, the Budget Officer. A comprehensive system of allotment accounting could, I believe, eliminate this work.
- (3) Information which would become available under this system could permit operating activities to exercise greater internal control and perhaps impose greater restrictions on the use of funds than under the present system. Also, information available by such a system would go hand in hand with budgetary requirements.
- (4) Resulting efficiency would greatly facilitate the preparation of the agency budget and simplify the justification, because the experience factors then available would serve as justification for the greatest portion of the budget, and a very small percentage would be left for imaginative justification.

E. RECOMMENDATION: That, as a part of an overall budgetary program to make CIA personnel more dollar conscious, carbon copies of allotment ledger sheets be furnished to each activity concerned on a monthly basis.

REASON: Under the present procedure, insofar as I know, CIA activities are not aware of the item-by-item obligation of funds allotted to them. Under the present system, the utilization of Form 34-12, "Report of Obligations and Expenditures by Object Classes", is a summary only and does not permit a review of actual obligations.

F. RECOMMENDATION: That authority and approval be obtained for the review by the Chief, Services Division, of the overall budget for the overt activities with respect to future plans of these activities and information as to total departmental personnel estimated to be required, to include whatever restrictions the Executive and the Director may place upon information to be made available.

REASONS: (1) Under the present circumstances, the Chief, Services Division, has no knowledge of the future plans of any activities of CIA, either overt, or departmental covert requiring overt support. Such information is extremely important from the standpoint of supply, space, and reproduction.

- (2) For example, OCD might plan expansion of a number of their activities, based upon an estimated increase in the flow of intelligence material, which, of necessity, would include increased reproduction requirements. Since the reproduction budget would be in the process of preparation at the same time, these estimates may not be adequate to meet the planning of OCD.
- (3) Although personnel estimates contained in the CIA Budget are subject to later review and approval at the time the fiscal year arrives, at least they are some indication of what expansion the Director may consider. Advance space planning is a constant necessity in the same manner as budgetary planning.

For estimating purposes services is furnished the approximate number of personnel that will be included in the budget. When the final number is known, Services estimates is adjusted on an estimated basis.

- (4) From the standpoint of supply, it is important to know approximately the number of people and the activities from an overt and departmental point of view that the Supply Branch will be required to service. Budget estimates of supply may be a great deal less than will actually be required.

G. RECOMMENDATION: The elimination of prior encumbrance of all purchase orders, work orders, and other obligation documents issued by Services, where the actual or estimated cost is not in excess of \$1,000.

- REASONS:
- (1) Under present procedures, delays for the purpose of encumbrance, due to existing procedures and the processing of purchase orders and work orders through the Fiscal Division, greatly increases the time required for procurement of supplies, equipment, or services, and could be avoided by the establishment of a monthly "reserve" on an estimated basis to cover the estimated cost of all such expenditures. Obligation documents issued by Services could then be forwarded without prior encumbrance to the source of supply, and encumbrance could be accomplished without seriously affecting the financial structure within CIA.
 - (2) Under the system proposed above, actual encumbrance would probably not be more than two or three days behind, and this would not be serious if the "reserve" account has been established to cover this type of obligation.
 - (3) The proposed system will permit improved service and delivery of necessary items of equipment and supplies, as well as other services, to operating activities.

H. RECOMMENDATION: That a more complete and specific policy be defined as to those items that must be referred to the Projects Review Committee.

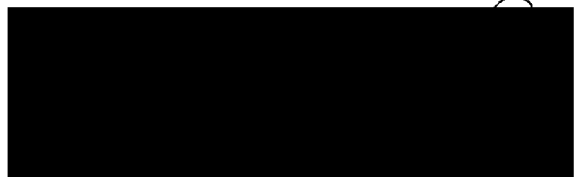
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REASON: Many requests are received by Services in which the question of whether Projects Review Committee approval is required is not at all clear. It is recommended that the definition deal with specific types of requirements which must be approved and that a dollar limitation of some description be established. I believe that a review of past projects and situations with which Services has been confronted would permit some improvement in the definition of requisitions requiring PRC action.

4. The above recommendations are made with constructive spirit, and I would be glad to be of any assistance possible in the discussion of these matters with the Budget Officer or the representatives of the Fiscal Division as you may request.

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